

2007 Emerging Issues Forum

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Lessons from Beyond Massachusetts



Lessons From Beyond Massachusetts

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New Hampshire

- Higher employer contribution rates effective 7/1 due mainly to poor investment performance
 - School districts could see a 57% increase
 - Employees pay 5%, 9.3% for Public Safety
- Plan is 67% funded
- Target is 85% by 2023
- Many are calling for additional overhaul to the system

Baltimore, Maryland

- New appropriation to be an increase of 30%
- Lots of questions surrounding appropriateness of investment asset allocation
 - Very conservative approach
 - Actuarial asset return assumption may be too high
- General misunderstanding of the increase in costs by the legislators

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Fort Worth, Texas

- Audit Report:
 - Abuse of overtime has substantially increased costs over expected, biggest contributor to unfunded liability
 - Excessive fees and lax controls
 - Abuse of the system by the Retirement Board, including hiring a lobbyist to block legislation to make pension system more transparent
 - No formal code of ethics or process for disclosing conflicts of interest
- Potential charges against Board members

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New York City

- Unfunded mandates, particularly COLAs, have increased the unfunded liability to \$49 billion, or
- Bloomberg Administration: “We are nearly fully funded”
- Differences are due to assumptions, methods and smoothing

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Pennsylvania

- \$11 billion shortfall
- Auditor General has called for a freeze on all benefit improvements, Early Retirement Incentives and COLAs
- Shortfall will require increases in appropriations from current 6.5% of pay to 23% by 2013.
 - Increased benefits
 - Investment Losses
 - Under funding of recommended contributions

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Nevada

- Governor proposes to stop funding retiree health insurance
- \$4.1 billion unfunded liability
- Options are being explored to reduce the liability

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Vermont

- Treasurer recommends reductions in pension and retiree healthcare benefits
 - Later Normal Retirement Date
 - More service required to earn full benefits
- Longevity, asset performance and benefit improvements are the primary drivers
- Teacher's pension fund has been chronically under funded

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Washington State

- “Gain Sharing” is on the chopping block
 - Program to increase benefits in years where trust return average exceed 10% per year for 4 consecutive years
 - Employers receive a piece of action as well
- Program does not include “take-away” for times when investment performance is particularly poor
- \$428 million obligation for 2008
- Unfunded liability is currently \$6.1 billion
- Retirement Board recommends full funding by 2024 through increased employee and employer contributions

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Illinois

- Governor wants to sell the Lottery and issue POBs to shore up the State Pension Funds
- Teachers recommended pension appropriation is chronically under funded

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New York State

- Employee contributions among the lowest in the nation – 4%
- Benefits are among the highest – 8th in the nation
- Governor vetoed many pension benefit enhancement bills

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Arizona

- Returning to work after “retiring”
- Contract employee for a year, then returning as fulltime employee
- Substantial increases in the unfunded liability due to the practice
- Younger employees feel they will end up footing the bill

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Texas

- Legislature initially voted to ignore GAS 43/45
 - Supported by the Treasurer / Controller
 - They did not like the numbers, nor understood what they meant
- Actual legislation permits government entities to ignore GAS 43/45, if they choose

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Hot Topics - POBs

- Pension Obligation Bonds are getting more attention
 - Investment returns have been substantially greater than the bond yields
 - Plan sponsors are looking at any creative way to pay for the promises
- Worcester's deal is in the black
- Brockton looks good, so far

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Hot Topics - Divestiture

- Investments connected with the Sudan are at the top of the list
- Early rumblings on Iran

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Hot Topics – GAS 43 / 45

- Measurement of the liability is having a spillover affect on the pension plans
- Sponsors are examining ways to reduce the “Retirement” liability
- Modifications to one plan likely to be mirrored in the other
 - Retirement eligibility
 - Longer service, greater benefit

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Hot Topics – Liability driven asset allocation

- Approach derived with a focus to minimize the volatility in the Pension Expense for corporations under FAS accounting rules
- Result is net lower expected asset returns over the long term
- Some wonder: Should Government plans be doing the same?

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Questions / Contact Information

Questions?

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